

The Cost of Occupation

The Burden of the Israeli–Palestinian Conflict 2012 Report

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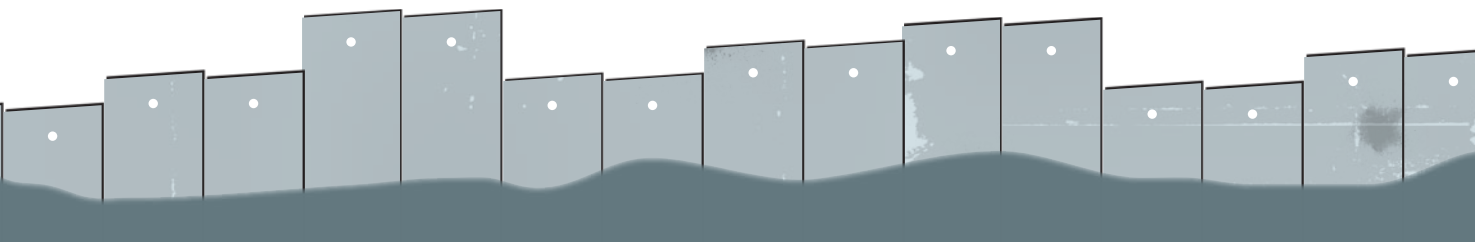
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**The Burden of the Israeli-Palestinian Conflict
2012 Report**



The Burden of the Conflict

June 2012 marks the 45th anniversary of the war during which Israel occupied all of the area of Mandatory Eretz-Israel/Palestine. Since then, the fate of this area has been in Israel's hands and has not been resolved politically. While Israel cannot institute a political solution unilaterally, it is the party to the conflict that holds most of the cards, the most important of which are military control of the territory; control of entrance to and exit from those territories; and settlements and military bases, which oversee a large part of the Palestinian territory in the West Bank. Thus, if Israel is paying a high price for the continuation of the conflict, this price is, in large measure, the result of its own doing. For years Israel has been divided between the aspiration for a political solution to the conflict and the desire to retain as much governance and control as possible, while constraining the independent space that such a resolution would create for the Palestinians – the physical and sovereign space, options for economic

development, possibilities of self-defense, immigration policy, freedom of movement, and freedom of trade. Both sides are paying a high price for the absence of a political solution to the conflict for over a hundred years. The Palestinians are paying the highest price: they are subject to Israeli military rule that extends to every institution and household; they are divided between the “ Hamas state ” and the “ Fatah state ”; they are unable to develop stable political institutions perceived as legitimate by the general population; they find it almost impossible to develop economically; their daily existence is dependent on the good will of donors; on the individual and family level, they are vulnerable to land expropriation, property damage, violence, incarceration and expulsion, and to humiliation in their homes, their streets and at checkpoints; many of them have had their studies interrupted; they suffer from high poverty rates, extensive unemployment, and food insecurity. For its part, Israel succeeds in carrying on “ normal life ,”

most of the time and in most of its territory, thanks to a thick curtain of isolation based on separation – today in the form of a physical wall – and on a heavy military presence in the Palestinian territories. The curtain of isolation is so effective that most Israelis feel they live in a “normal” country, thousands of miles from the Palestinian territories.

The truth is that Israel is not a “normal” country. The conflict hangs like a millstone around Israel’s neck: it undermines its economic growth, burdens its budget, constrains its social development, sullies its vision, harms its international standing, exhausts its army, divides it politically, and threatens its future as a Jewish state. Israel is paying a heavy price for the continuation of the conflict and for the seemingly endless postponement of the implementation of a fair and agreed-upon division of territory between the two peoples.

The present paper delineates the economic, social,

military and political price that Israel is paying.

Many Israelis will have trouble thinking in terms of cost, in other words, in terms of a policy that has alternatives.

Most were born or arrived in Israel after 1967, are unfamiliar with the Green Line, and are accustomed to viewing Palestinian resistance as an expression of uncompromising hostility whose purpose is to threaten their own safety – rather than as an expression of Palestinian desire to end the occupation and live in an independent state.

Moreover, many Israelis do not pay a personal price and even make a profit from the occupation, though it may not be direct or conscious. To this it should be added that it is not always easy to discern the cost of the occupation, especially in cases in which the cost is not personal but rather macro-economic or macro-social.

The background features a series of vertical blue bars of varying heights, each with a white circular hole near the top, resembling a bar chart or a set of folders. At the bottom, there is a dark, textured silhouette of a landscape or a group of people.

Unstable Economic Growth in the Shadow of the Conflict

Economic Growth in Israel: Untapped Potential due to the Conflict

Many Israelis – Prime Minister Binyamin Netanyahu above all – believe that the economic performance of Israel and the geopolitical conflict are not necessarily related.¹

Professor Stanley Fischer, Governor of the Bank of Israel and an economist of international renown, thinks differently:

The view has been expressed that the good growth rates of Israel's economy in the years before the crisis [the financial crisis that began in late 2008 – SS] prove that economic growth is unrelated to the geopolitical situation. I am convinced that in conditions of peace, the Israeli economy could grow faster than in a situation of a never-ending dispute with our neighbors.²

And he added details: "I'm convinced that with peace, the Israeli economy could grow at a rate of 5-6% – more than in a situation of never-ending dispute with our neighbors."³

Professor Zvi Eckstein, former Deputy Governor of the Bank of Israel, also believes that the conflict reduces the potential for Israeli economic growth. In his opinion, "A peace agreement that improves geopolitical stability and lowers political threats could in the short run (over the course of several years) contribute an additional 0.25 to 0.75 percentage points of economic growth a year."⁴

Professor Manuel Trajtenberg, who headed the government committee to study the demands of the social protest movement of the summer of 2011, argues that without grappling with the Palestinian issue, no significant change will take place in the areas of housing, education, or health.⁵

Economic Growth in the Shadow of the Ongoing Conflict

Without resolution of this conflict and with the occupation an ongoing reality, the Israeli economy is at risk and vulnerable to the ravages of instability. The violent clashes exact a higher price from the Palestinians, as they take place primarily in the Palestinian territories and are accompanied by the destruction of homes, industrial and commercial buildings, and other infrastructures. But this does not lessen the damage they do to the Israeli economy – a decline in investments, trade, tourism, and workdays and general harm to Israel's image as a stable, credible, and safe economy.

The record of recent decades reveals that from the moment the Palestinian resistance moved from external venues, such as plane hijackings and the murder of Israeli athletes in the Munich Olympics, into the Palestinian territories and Israel, Israel's economic stability was jeopardized.

In 1987, the year that ended with the outbreak of the first Intifadah, Israel's economic growth was a robust 6.1%. One year later, the first full year of the Intifadah, this declined to 3.6%, and in 1989 to 1.4%. Fortunately for the Israeli economy, 1989 marked the start of a large wave of immigration from the former Soviet Union, whose effect was to stimulate economic activity. The Oslo Accords (1993-1995) and the peace treaty with Jordan (1994) were beneficial for the Israeli economy, as they opened up many new markets. The improvement was less dramatic for the Palestinians. More than that, the massacre of Muslim worshippers by Baruch Goldstein in Hebron's Cave of the Patriarchs to protest the Oslo Accords ignited a chain reaction of Palestinian suicide bombings in Israel that undermined public security and reduced economic activity. The second Intifadah erupted in late 2000 – a year of exceptionally high economic growth (9.2%) due in part

to the sale of a large number of hi-tech startups. The next three years were characterized by a heavy recession – described by the Bank of Israel as the longest in Israel's history. It was initially sparked by the bursting of the hi-tech bubble globally and then extended because of the Intifadah. The economy began to recover only in the second half of 2003.

The wave of economic growth continued until the end of 2008, with the onset of the global economic crisis. The damaging effect of this global crisis was reinforced by Israel's Cast Lead military operation in the Gaza Strip from

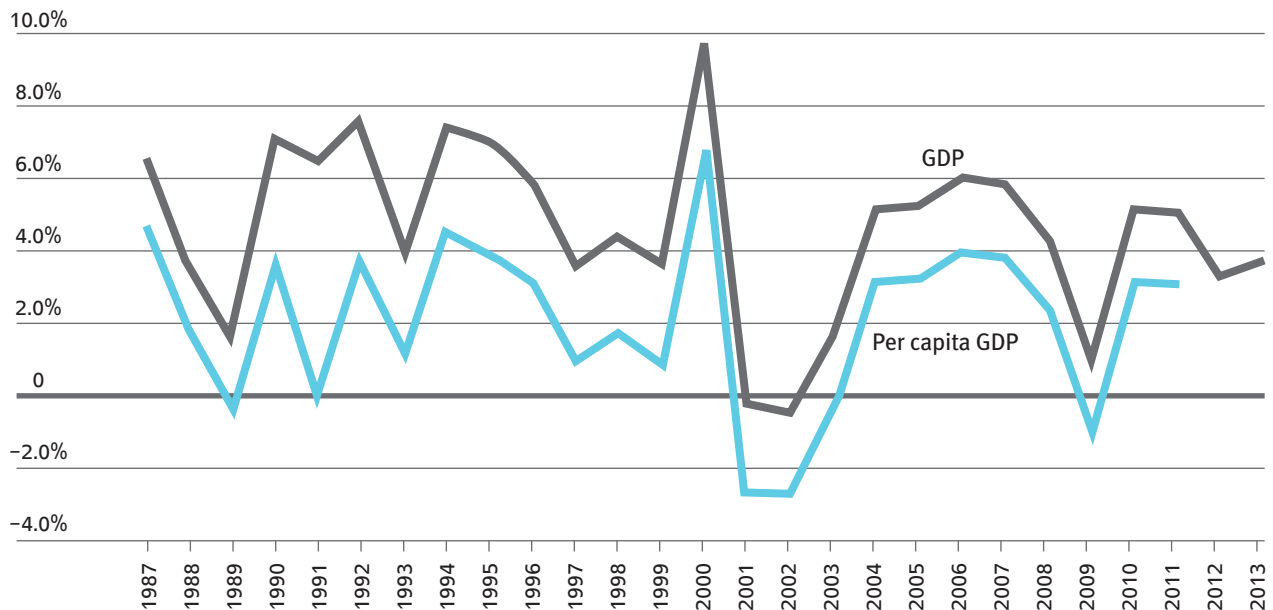
December 2008 through January 2009.

The above events illustrate the fact that as long as there is no political agreement, Israel is exposed to two threats: economic crisis in countries that are trading partners and economic crisis stemming from clashes between Israel and the Palestinians.

Since late 2008, the global financial and economic crisis has dominated economic attention. Iranian nuclear development has also pushed the Israeli-Palestinian conflict into the margins. But past experience indicates that this conflict is never very far from center stage.

Growth in Israel 1987-2011 and Forecast for 2012-2013

Annual change rates in the GDP and in the GDP per capita, in percentages



Note: The forecast is for GDP only.

Sources: Adva Center analysis of Central Bureau of Statistics, *Statistical Yearbook*, various years; Central Bureau of Statistics, Press Release, "Israel's National Accounts for 2011," 16 March 2012; Bank of Israel, Press Release, *Macroeconomic Forecast for 2012 and 2013*, 26 March 2012.

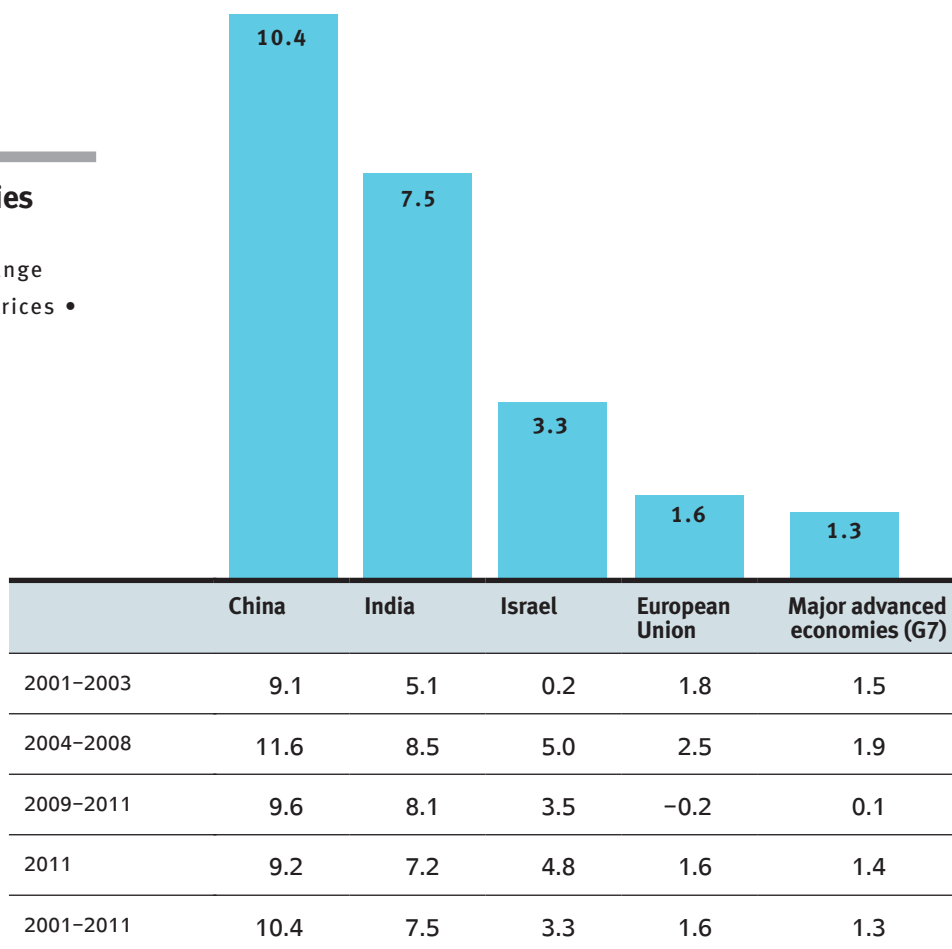
Economic Growth in Israel and among its Trading Partners

● The combination of global economic crises and local hostilities results in Israel experiencing lower economic growth than other countries. This reduces Israel's ability to approximate the output and standard of living of western countries. To catch up, Israel's economy needs to grow at rates comparable to countries like China and India, while in reality, due to frequent ups and downs, it has been growing at much lower rates. The picture becomes even clearer when we examine growth rates of per capita GDP.⁶ In China, India, and Poland, the average annual per capita GDP increased at a higher rate than in Israel between 2000 and 2011. The

main reason is that none of these countries experienced a decrease in per capita GDP comparable to what Israel experienced during the period of the second Intifadah. In Germany and the United States, growth rates resembled that of Israel: 0.7% and 1.2%, respectively. This similarity is not encouraging because the per capita GDP in these countries is significantly higher than Israel's. If Israel aspires to the standard of living in Germany and the United States, it needs to grow economically at a rate higher than that of these states for an extended period of time. The continuing conflict with the Palestinians makes this goal difficult to achieve.

GDP: Selected countries and country groups

2001-2011 • average change rates in GDP • constant prices • in local currency



Per Capita GDP, Selected Countries,

2001-2011 Average rates of change for
selected periods in constant prices in local
currencies • in descending order



Note: Data for Israel are based on an analysis of data from the Central Bureau of Statistics.

Source: Adva Center analysis of data from the International Monetary Fund website, May 2012.

Per Capita GDP

For selected OECD member
countries • 2011

Current prices • in US\$

Norway	97,255
Switzerland	81,161
Australia	65,477
Denmark	59,928
Sweden	56,956
Canada	50,436
Holland	50,355
Austria	49,809
Finland	49,350
Singapore	49,271
United States	48,387
Belgium	46,878
Japan	45,920
France	44,008
Germany	43,742
Britain	38,592
New Zealand	36,648
Italy	36,267
Spain	32,360
Israel	31,986

Source: www.IMF.org

Tourist Entries

The tourist industry is vulnerable to political instability, and particularly to violent clashes. The ongoing Israeli-Palestinian conflict defines Israel – and the Palestinian Authority – as a conflict zone. As a result, Israel and the Palestinian Authority, although blessed with tourist attractions no less inviting than those of neighboring countries, attract fewer tourists than do other countries in the region.

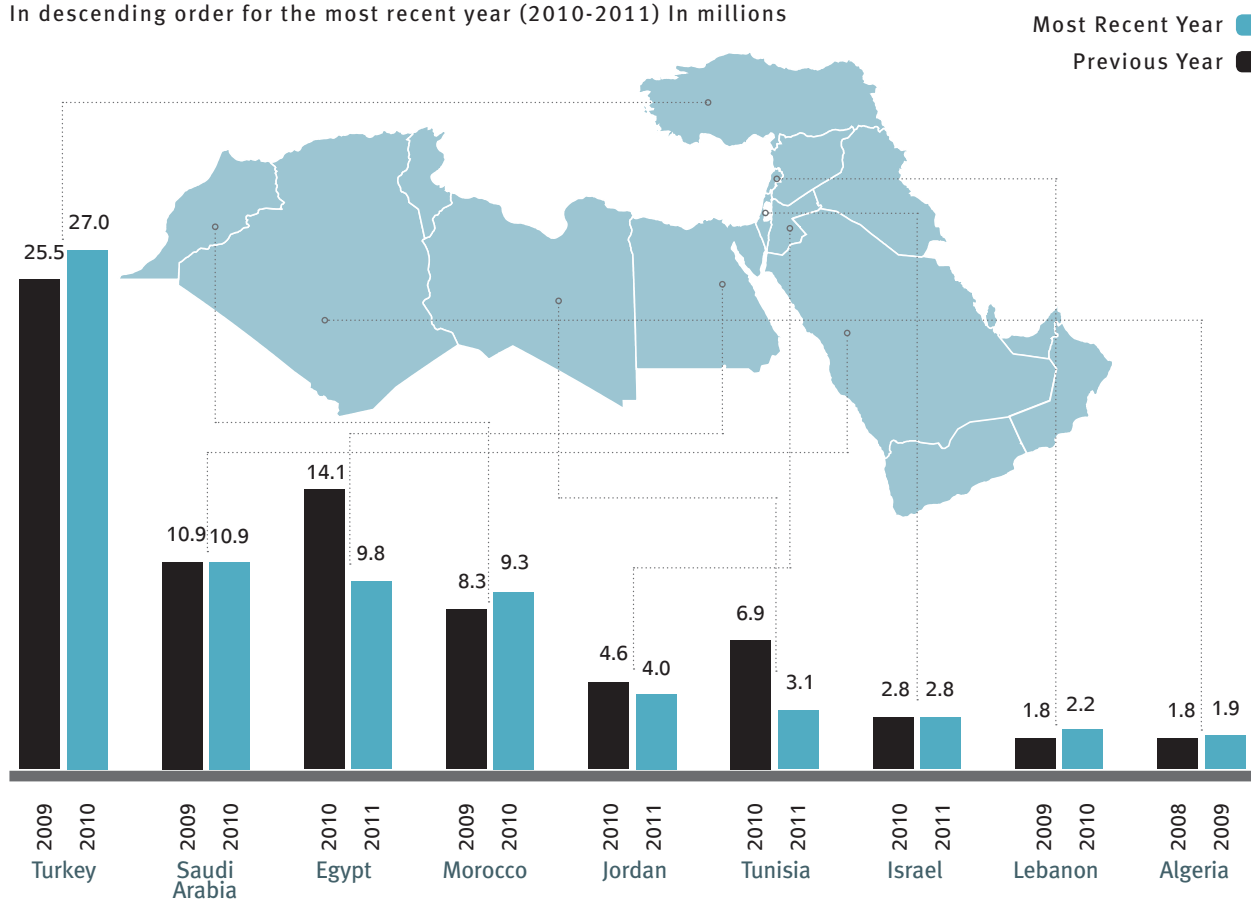
The number of tourist entries to Israel in 2011 – 2.8

million – was significantly lower than the number of tourist entries that year to Turkey, Morocco, or Saudi Arabia. It was even lower than the number of tourists to Egypt or Tunisia that year, even though both those countries showed a drastic decline in tourism after the Arab Spring. Even Jordan welcomes more tourists than Israel does.

In terms of tourism, Israel resembles Lebanon and Algeria, which have also experienced prolonged internal conflicts.

Tourist Entries to Israel and Neighboring Countries

In descending order for the most recent year (2010-2011) In millions



Note: Does not include same-day visitors.

Sources: The World Bank, 2011 World Development Indicators; Central Bureau of Statistics, Monthly Bulletin of Statistics, Central Bureau of Statistics website.

International Economic Standing in the Shadow of the Conflict

The prolonged conflict has had a negative effect on Israel's international economic standing. Tangible evidence of this can be found in the gap between Israel's relatively high ranking on economic and social indicators and its relatively low credit ranking.

In the United Nations Human Development Index for 2009, which includes social as well as economic indicators, Israel ranked 17th out of 182 countries (in 2011) – a very respectable ranking.⁷

Israel's credit rating, however, is significantly lower: Standard and Poor's lists Israel in 32nd place on credit ratings (as of May 2012), on par with Chile and Slovenia. Until 2010, Israel was rated even lower, but the current economic crisis in Europe hurt the standing of countries that had for years enjoyed a higher rating than Israel, including Italy, Spain, and Ireland.

Credit ratings are intended to give investors an indication of the reliability of a country (or corporation) with respect to its financial obligations; this credibility is in turn affected by its political stability and national security. It should be noted that the issue of credit ratings is highly controversial, and many people take issue with the power concentrated in the hands of the international companies that compile these ratings. Nevertheless, credit ratings continue to have a substantial influence, primarily on the level of interest rates charged to countries for financing their needs.

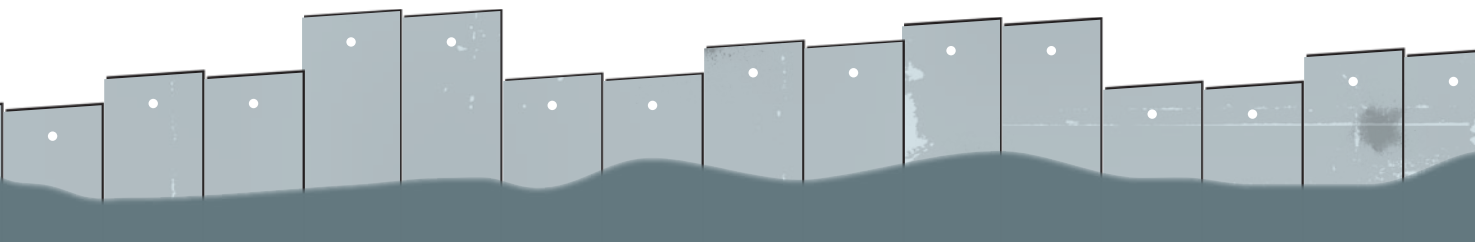
The main reason for Israel's relatively low credit rating is the regional instability, the Israeli-Palestinian conflict, in particular. A low credit rating means a higher rate of interest charged on government loans as well as corporate loans taken abroad. In 2003, during the second Intifadah, when Israel was in need of capital, it asked the United States for loan guarantees in the amount of \$9 billion. These guarantees allowed Israel

Credit Ratings of Countries on the Standard and Poor's Index

9 May 2012, in descending order

Country	Credit Rating
Norway	AAA
Australia	AAA
Holland	AAA
Canada	AAA
Denmark	AAA
Finland	AAA
Germany	AAA
Sweden	AAA
Hong Kong	AAA
Lichtenstein	AAA
Luxembourg	AAA
Singapore	AAA
Britain	AAA
Switzerland	AAA
United States	AA+
Austria	AA+
France	AA+
Guernsey	AA+
Isle of Man	AA+
Belgium	AA
Abu Dhabi	AA
Kuwait	AA
New Zealand	AA
Qatar	AA
Bermuda	AA-
China	AA-
Czech Republic	AA-
Estonia	AA-
Japan	AA-
Saudi Arabia	AA-
Taiwan	AA-
Israel	A+

Source: <http://standardandpoors.com/ratings/sovereign>



to obtain loans at a rate of interest similar to that paid by the United States, which then had the highest credit rating. Without this help, Israel would have had to pay a heavy price for its political instability, which in large part is due to the ongoing Israeli-Palestinian conflict. Israeli political leaders are very sensitive to any development that is liable to have an adverse effect on its credit rating. During the second Intifadah, ministers of finance lobbied the credit rating agencies in New York and London to prevent the lowering of Israel's rating. And during the Second Lebanon war, the government avoided declaring a state of emergency: Such a declaration would have been very helpful to families and businesses harmed by the war, but the government refrained from doing so to avoid jeopardizing Israel's credit rating. It is reasonable to assume that without a stable political accommodation with the Palestinians, it will be hard for Israel to convince the credit companies to raise its rating.



Budgeting

in the Shadow of the Conflict

The Economic Burden of Defense Spending

● The military victory of 1967 transformed Israel into the strongest military power in the region. This position has entailed a heavy economic and military burden. In contrast to the previous wars, after the 1967 war the defense budget not only failed to decrease, it grew, and in the wake of the Yom Kippur war in 1973 it grew even more, peaking at about one-third of the total state budget. The size of the defense budget was one of the main reasons for the economic crisis that occurred in the 1980s.

Initially, the conflict with the Palestinians was not the main reason for the economic burden of defense spending. The budgetary cost of holding onto the Palestinian territories was low, both because Israel did not invest in economic development in the territories and because Palestinian resistance, limited in those years to border-crossings and attacks on Israeli targets abroad, did not require the deployment of a large military force. Most IDF activity in the early years of the occupation was carried out by a relatively small number of elite corps. Center stage was taken by the confrontations with Egypt (the War of Attrition and the Yom Kippur war) – which ended in a peace treaty in 1979 – and with Syria. The peace treaty with Egypt allowed Israel to reduce its defense budget.

However, not long after signature on the Israeli-Egyptian agreement, the Israeli-Palestinian conflict did take center stage. In 1982, the IDF invaded Lebanon in an attempt to weaken the Palestinian military organizations that had reestablished their base there after having been expelled from Jordan in 1970 (Black September). The IDF presence in Lebanon continued until 2000. The same war was responsible for the growth of the Hezbollah, as well as the Second Lebanon war in 2006.

In 1987, five years after the IDF's invasion of Lebanon, the Palestinians in the occupied territories initiated

the first Intifadah. The effect of the Intifadah was to raise – immediately and permanently – the economic-military cost to Israel of the occupation. The IDF set up special commands for the Palestinian territories, the Gaza Command and the Judea and Samaria Command. It also formed special units to cope with the Palestinian uprising, among them Duvdevan and Shimshon. What's more, most of the field reservists found themselves serving in the occupied territories. In addition, military protection for the Jewish settlements also required increased resources.

The signing of the Oslo Accords did not lead to a reduction in Israel's military presence in the Palestinian territories. Firstly, the division of the territories into three categories – Areas A under complete Palestinian responsibility, Areas C under Israeli control, and Areas B under joint responsibility – led to the permanent deployment of IDF forces in areas C and at numerous roadblocks at the convergence points of the different areas. Secondly, Baruch Goldstein's massacre of Muslim worshipers at the Cave of the Patriarchs in protest of the Oslo Accords necessitated an increased presence of IDF forces in the territories.

While the first Intifadah had been an unarmed civilian uprising, the second Intifadah involved armed resistance. The IDF responded with full force, deploying a large part of the regular army as well as reserve units to suppress the uprising. In the course of the hostilities, the IDF reoccupied all the Palestinian territories. As noted, the second Intifadah brought about the most serious and extended economic recession in the history of Israel. It also resulted in major additions to the security budget in the years 2001-2004.

In 2003, following the outbreak of the second Intifadah, Israel began to build a separation wall around the Palestinian territories in Judea and Samaria. A legal

Cost of the Israeli-Palestinian Conflict since the First Intifadah

Selected Items

- In billions of shekels at current prices

Separation Wall	13.0
Disengagement from the Gaza Strip	9.0
Cast Lead Operation	4.8
R&D and production of “Iron Dome” ⁹	3.5
Fortification of communities near Gaza	1.0

Source: Ministry of Finance, *Budget Summary*, various years.

route for erecting this wall would have been the border recognized by the main international bodies – the Green Line; had the wall been constructed along the Green Line, it would have been 313 kilometers long. However, the wall was built so as to place a good many of the Israeli settlements on the Israeli side of the wall, which involved annexing areas populated by Palestinians as well as what has been called the “seam zone.” This will make the wall twice as long – 790 kilometers.

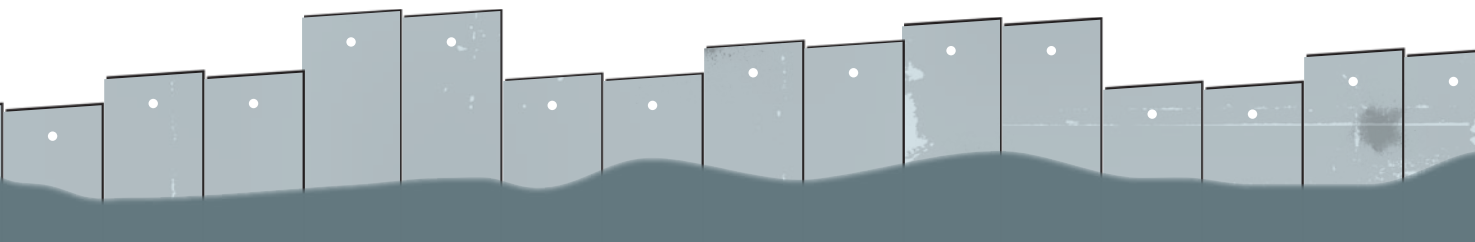
The cost of the separation wall was estimated by the Brodet Commission at NIS 13 billion.

The Gaza Strip became the next focus of confrontation: In 2005, Israel dismantled the settlements and military installations in the Gaza Strip in an operation termed “the disengagement.” The cost of evacuating and reconstructing the military facilities and new residential communities was estimated at NIS 9 billion. The disengagement did not reduce IDF activity, however, as Israeli forces now blockaded all residents of the Gaza

Strip by land, sea, and air. In January 2006, Hamas won the Palestinian parliamentary election, but Israel refused to recognize their victory. A year later, Hamas seized control of the Gaza Strip, and in response, Israel tightened its closure of the Gaza Strip. The closure was further intensified after the Palestinians took hostage Israeli soldier Gilad Shalit. This was followed by extensive shelling of Israeli settlements adjacent to the Gaza Strip, which necessitated large investments in fortifying those communities. In the summer and fall of 2006, the IDF launched the “Summer Rains” operation in response to Shalit’s capture. The cost of the operation was never made public.

In late December 2008/January 2009, Israel embarked upon a three-week military campaign in the Gaza Strip. Termed “Cast Lead,” this operation cost approximately NIS 4.8 billion, to which another billion should be added to pay for the fortification of buildings adjacent to the Gaza Strip (Ministry of Finance, Budget Proposal for 2009-2010: Budget Summary).

Since Operation Cast Lead, several additional rounds of fighting have ensued. The most recent took place in March 2012 following the “targeted assassination” of the commander of the Popular Resistance Committees. In response, this organization, in coordination with the Islamic Jihad, launched hundreds of rockets into Israeli territory near the Gaza Strip, and Israel shelled the Gaza Strip in return. Hundreds of thousands of Israelis were confined to bomb shelters while schools throughout the region were shut down for days. The media reported that “sales dropped by 50% in the southern towns.”⁸ During the clashes, the IDF employed the “Iron Dome” anti-missile system for the first time, which cost Israel \$1 billion – approximately NIS 3.5 billion for its share of the R&D and production.



The Defense Budget for Suppressing the Palestinian Opposition

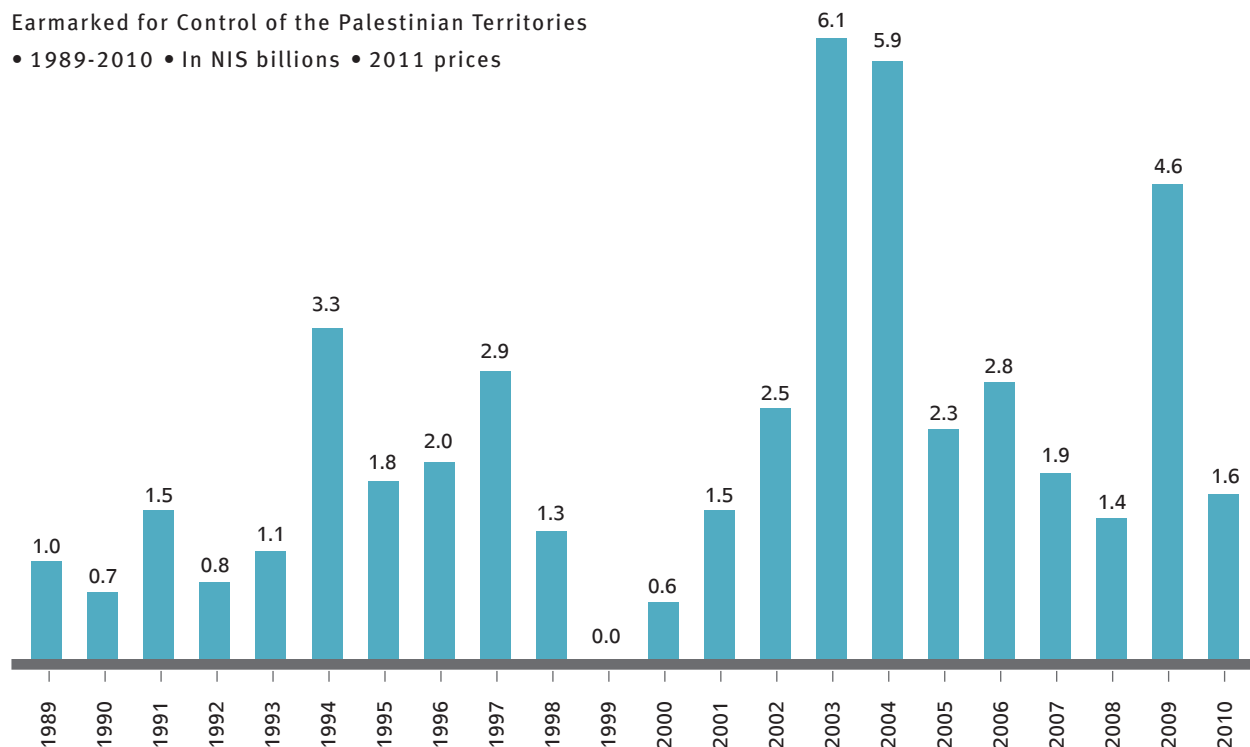
There is no way to calculate the full budget cost of Israel's military rule over the Palestinian territories – the cost of command centers, the use of special forces, the extensive deployment of reserve units, and the like. Among other reasons, most of the military outlays in the defense budget are confidential. An inkling of the extent of the military expenditure can be obtained from one figure that is published annually – supplements to the defense budget allocated for

military activity in the Palestinian territories. Between 1989 and 2010, the Ministry of Defense received special allocations totaling approximately NIS 48 billion (in 2011 prices). This figure includes some of the budget lines noted above: construction of the Separation Wall, the disengagement from the Gaza Strip, the Cast Lead operation, and fortification of the communities near the Gaza Strip. It does not include, however, the development of the Iron Dome anti-missile system.

Additional Appropriations to the Defense Budget

Earmarked for Control of the Palestinian Territories

• 1989-2010 • In NIS billions • 2011 prices



Notes: Does not include appropriations made to finance the Second Lebanon War. This budget line is absent from the budget books for fiscal 2011-2012.

Source: Adva Center analysis of Ministry of Finance, *State Budget: Budget Summary*, various years.

Budgeting in the Shadow of the Conflict: The Social Protest Did Not Change the Order of Priorities

Through the last decade, Israel has often faced the choice of increasing the budget for social services or spending more money on security.

During the second Intifadah, the government slashed the state budget for a cumulative total of some NIS 65 billion – an unprecedented retrenchment; at the same time, the defense budget was enlarged by a total of some NIS 15 billion. The government could have chosen differently – it could have financed the higher security outlays (and prevented the drastic cuts to social services) by raising taxes, for example, particularly for high-income earners. The choice made reflected a neoliberal political-economic agenda, one that seeks to cut the budget and lower state participation in social services, particularly social insurance.

The five years of economic growth that followed the quelling of the second Intifadah (2004-2008) did not fully compensate for the budget slashes, and the total expenditure on social

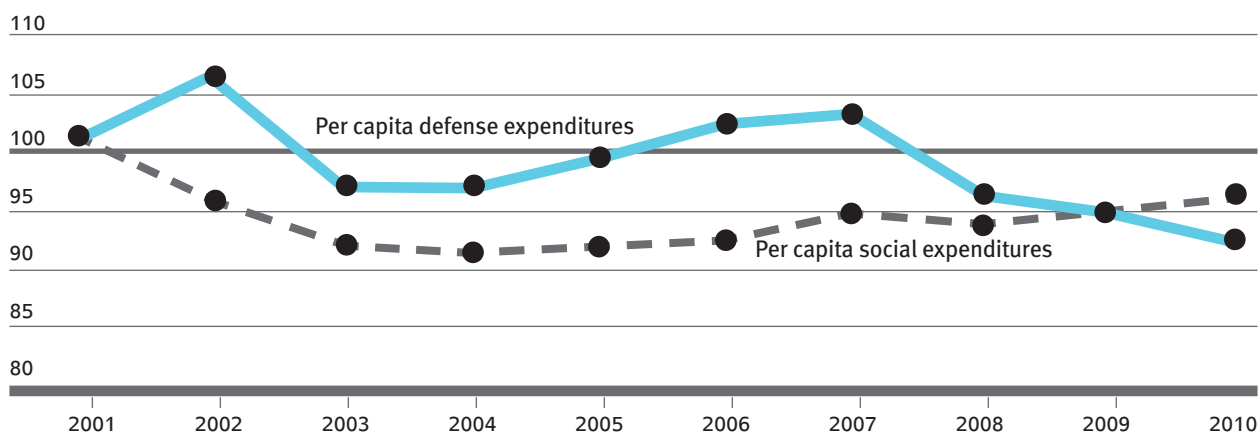
services did not revert to its 2001 level.

Following the social protest in the summer of 2011, the Cabinet established the Trajtenberg Committee, which recommended free public education from age 3, to be financed by a NIS 2.5 billion cut in the defense budget. Although the committee's recommendations were adopted, when the time came to set it in motion, the budget cut for defense was cancelled and replaced by a "horizontal cut" in the budgets of the civilian ministries, most of which deal with social needs. Thus, not only was the security budget not cut, it was raised.

The graph below reveals that during most of the previous decade, the per capita defense budget grew faster than the per capita social services budgets. In 2009, both were at a similar level (relative to 2001) and it was only in 2010 that the social services budgets grew more than the security budget. The 2011 budget outlays have not yet been made public.

Changes in Social Expenditures and Defense Expenditures

On a Per Capita Basis, 2001-2010 • 2001 Index = 100



Notes: Social expenditures were calculated by totaling the actual outlays of the following ministries: Education (including development), Science, Sports and Culture, Health (including development), Higher Education, National Insurance Institute pensions (those paid by the Finance Ministry), Social Affairs (data from 2001-2004 from the Ministry of Social Affairs, but do not include the budget lines for administration and reserves). These data reflect actual outlays.

Population data as of 2008 were updated based on the 2008 census of the Central Bureau of Statistics.

Sources: Adva Center analysis of Ministry of Finance, Office of the Accountant General, *Financial Accounts*, various years; Ministry of Finance, *Proposed Budget and Explanations 2011-2012*, Ministry of Education, October 2010; Ministry of Finance, *Proposed Budget and Explanations 2011-2012*, Ministry of Health, October 2010; Ministry of Finance, *Proposed Budget and Explanations 2011-2012*, Higher Education, October 2010; Ministry of Finance, *Proposed Budget and Explanations 2011-2012*, Ministry of Social Affairs, October 2010; Ministry of Finance, *Proposed Budget and Explanations 2011-2012*, Ministry of Science, Culture and Sports, October 2010; Ministry of Finance, *Budget Summary*, various years; Central Bureau of Statistics, *Statistical Abstract of Israel*, various years; Central Bureau of Statistics, Population by Population Groups, *Monthly Bulletin of Statistics*, No. 4/2012, Table B/1, May 2012.

The Cost of the Settlements

● So far we have surveyed the security costs of continued Israeli control over the Palestinian territories. But this control also has a civilian cost – the price of building, maintaining, and protecting the settlements.

Calculating the cost of the settlements must take into account the fact that their inhabitants would require housing even if they chose to buy a home within the Green Line. Nevertheless, the policy of supporting settlements has brought with it significant additional costs. We present below three categories of expense to illustrate these costs:

A. Government support for municipal budgets

Government support for the settlements greatly exceeds its support for the local authorities within the Green Line. The extra funding might merely reflect a political preference, but it also responds to special needs, such as security protection or the need for schools and health services even in settlements that are small and distant from each other.

Within Israel, the government allocates monies from the state budget to local authorities in three ways:

1. Balance grants (general monies) are distributed to local authorities based on set criteria (such as the economic health of the authority) or are given as special grants to reduce the accumulated deficit of the authority.

In 2009, settlements enjoyed the highest grant, on average – NIS 951 per capita – compared with NIS 303 per capita for municipalities within Israel proper (excluding Judea, Samaria, and the Golan Heights), NIS 776 for Arab localities, and NIS 616 for Jewish development towns (at 2010 prices).

2. Service grants finance services provided by the state via the local authorities, like education and welfare.

In 2009, the per capita service grant was NIS 2,264 in settlements, NIS 1,859 in Arab towns, NIS 1,719 in development towns, and NIS 1,378 in the “Forum-15” – the 15 wealthiest municipalities (at 2010 prices). Prior to 2000, the average per capita allotments to the settlements were much greater. In the course of the last decade, however, the population of the settlements burgeoned: Between 2000 and 2009, the population of Israel proper (excluding Judea, Samaria, Gaza, and the Golan Heights) grew by 18%, while settlement populations grew by 47%.

3. Investment budgets are used by local authorities to finance construction and development – the building of public structures or roads, the purchase of equipment, machines, or land, etc. Investment budget monies come from the local authorities themselves, owner participation, loans – and also from the central government.

In the decade 2001-2010, central government funding covered 60% of the investment budgets of the settlements, on average, compared with 29% of these budgets for municipalities within the Green Line. The parallel figure in development towns was 39% and in Arab localities, 47%. As a result, the settlements took fewer loans, which constituted only 10% of their investment budgets, in comparison with an average 25% in loans needed to finance investment budgets in municipalities within the Green Line.

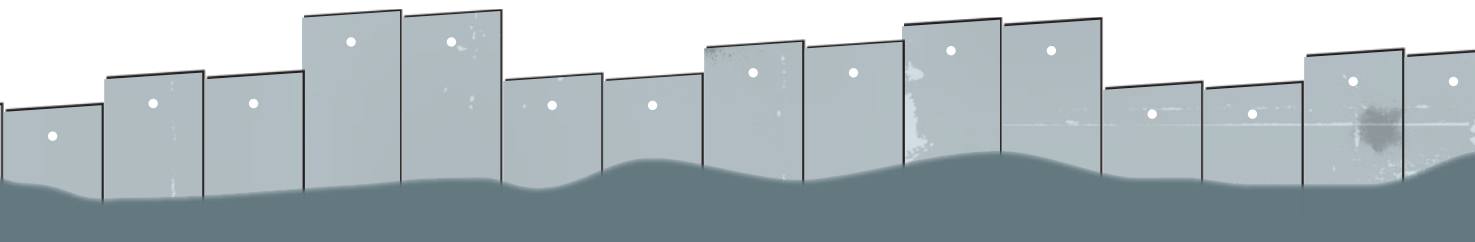
B. Housing Construction

Government investment in the initiation of housing development, which includes establishing the location, standard, and size of housing units, and in housing construction, is significantly higher for settlements. Between 2000 and 2009, 20,933 home construction starts were registered for Judea, Samaria and Gaza, at a total investment of NIS 14.4 billion (at 2005 prices). The central government was responsible, on average, for 50% of the home construction starts and for 35% of the total investment in housing construction. During these same years, the central government was responsible for only 18% of home construction starts and 10% of the total investment in home construction within Israel proper.

C. Supplements concealed in the budgets of various government ministries

Settlements also enjoy supplements concealed in the budgets of government ministries. These supplements are generally not earmarked for settlements, and they may also benefit towns within the Green Line. For example, the proposed Ministry of Education budget shows supplemental allocations for the construction of school buildings in conflict zones (near borders) or mountainous areas. Although not all recipients of these supplements are settlements, all settlements received these supplements, whether because they are located in Palestinian areas that call for constant IDF protection or because they are perched on the hills of Judea and Samaria. Building a school in a mountainous or high-risk area can cost up to 37% more than building a school in an area that is not mountainous or located in a conflict zone.¹⁰

These supplements are also presumably applied to the building of public facilities for other purposes: medical, religious, or infrastructure development – water, electricity, sewage, roads.



The Future Economic-Military Burden: What is the Prognosis?



Without a political resolution to the conflict, its costs will continue to weigh heavily.

Several fairly prophetic statements may be cited from the May 2007 report of the Commission on the Defense Budget, headed by David Brodet:

...The Palestinian front requires huge resources that constrain the regular outlays for routine security measures as well as intelligence...

It appears that neither the political nor the military echelons have internalized the high alternative cost of permanently diverting resources to this arena... An updated security perception is that this arena will continue to be central and even more significant in the future...and the IDF will continue to invest vast resources in it in the coming years.

Moreover, it appears that there is an unintended process of rising costs because terrorist elements are determined to maintain a kind of asymmetrical arms race (or balance of terror). Suicide bombings, for example, made necessary construction of a separation wall, whose cost is estimated to be

over NIS 13 billion. This is a huge sum on its own, and certainly relative to the Palestinian arena. The wall is proving effective, but in the Gaza Strip its effectiveness is neutralized to some degree by the use of tunnels and rocket fire. The military is developing responses to those threats, but the cost of defensive and offensive measures is very high. As for ground operations, these, too, are becoming more and more expensive, due to the acquisition by terrorist organizations of advanced anti-missile weapons. The important point is that the conflict with the Palestinians is becoming much more “expensive” from the standpoint of the ongoing diversion of limited military resources, such as manpower and command attention, without significant change on the horizon. This is one of the most important recent developments...This development has not been sufficiently internalized, partly because a considerable portion of these costs is not fully reflected in the defense budget (Brodet, 14-15).

The background features a series of vertical blue bars of varying heights, each with a white circular hole near the top, resembling a fence or a set of data bars. At the bottom, there is a dark, textured silhouette of a landscape or a group of people.

Israeli Society


in the Shadow of the Conflict

Israeli Society in the Shadow of the Conflict

The frequent confrontations between Israelis and Palestinians are damaging to both sides, but Palestinian society is the biggest loser: Mahmoud Abbas reflected upon this when he described the second Intifadah as “one of the biggest mistakes of our lives” (*Ha’aretz*, 26 May 2010). Over the years, Israel lost less than Palestine; in fact, Israel today is far more developed and affluent than it was in 1967. These differences lead many Israelis to believe that the prolonged conflict does not affect them. But the truth is otherwise. Moshe Dayan, Minister of Defense during the Six Day war and in the period immediately following, stated during the 1969-1970 War of Attrition with Egypt that Israel could not fly two flags at one and the same time – the defense flag and the social flag. And yet upon signature of the peace treaty with Egypt and subsequent large cuts to the defense budget, Dayan’s words seemed to have lost some of their validity. But then came the two Palestinian Intifadahs, particularly the second, giving renewed meaning to his words. Dayan’s statement presumes a zero-sum game, of course: The heftier the defense budget, the more modest social service spending must be; and the more robust the social services, the less money available for defense. But this is a misrepresentation, as heavy defense spending can be maintained by finding other sources to finance

it, particularly by raising corporate and income taxes. The governments of Israel, however, have chosen to reduce social service spending rather than raise taxes, particularly the taxes of high-income earners, because of their adherence – ever since the Economic Stabilization Program of 1985 – to a neoliberal economic agenda. Indeed, the budget slash of NIS 65 billion during the years of the second Intifadah was bolstered by numerous government statements deploring the welfare state. At the same time, the government decision to cut social budgets rather than raise taxes might reflect a socioeconomic strategy that strives to preserve the business, entrepreneurial, and managerial class, even under difficult security conditions, by more lenient taxation. Indeed, not only were direct taxes not raised during the second Intifadah, they were even lowered as part of the multi-year tax restructuring that went on from 2003 to 2010. At any rate, it is clear that without the ongoing conflict and the Palestinian Intifadah, the governments of Israel would not have had to take the above measures, and certainly not in their extreme form. The impact of the ongoing conflict on internal processes within Israeli society is often quite direct. One example is increased poverty.

Defense Spending Harms Israel's Ability to Cope with Increased Poverty

 Poverty in Israel has been increasing since the 1980s:

In 1985, the poverty rate for families was 11.4%;

In 1995, it was 16.8%;

In 2010, it was 19.8%, after having reached over 20%.

The increase in poverty is the product of a number of factors, including policies that seek to lower labor costs by weakening labor unions and employing workers through temporary work agencies; a labor market characterized by several years of high unemployment and that excludes many Israelis; and the arrival of hundreds of thousands of immigrants from the former Soviet Union and Ethiopia, who are unemployed or work for low wages.

But the increase in poverty is also to a large extent a direct product of the financial burden of the prolonged occupation of the Palestinian territories: We have already noted that at the time of the second Intifadah, the defense budget was increased, largely at the expense of transfer payments: In the course of four years (2002-2006), child allowances were cut by 45%, unemployment compensation by 47%, and income maintenance by

25%.¹¹ These cuts caused an immediate rise in poverty, as can be seen in the figure below. The Ministry of Finance admitted that the cuts were intended to finance a larger defense budget.¹²

As a result, Israel finds it more and more difficult to cope with its high level of poverty. It does not invest enough in the economic development of peripheral areas, or in vocational training to upgrade workplace skills, or in expanding daycare so that more mothers can hold down jobs.

The state is also finding it difficult to slow down the increased poverty by means of income transfers:

In the 1980s, transfer payments reduced the overall poverty rate by approximately 60%;

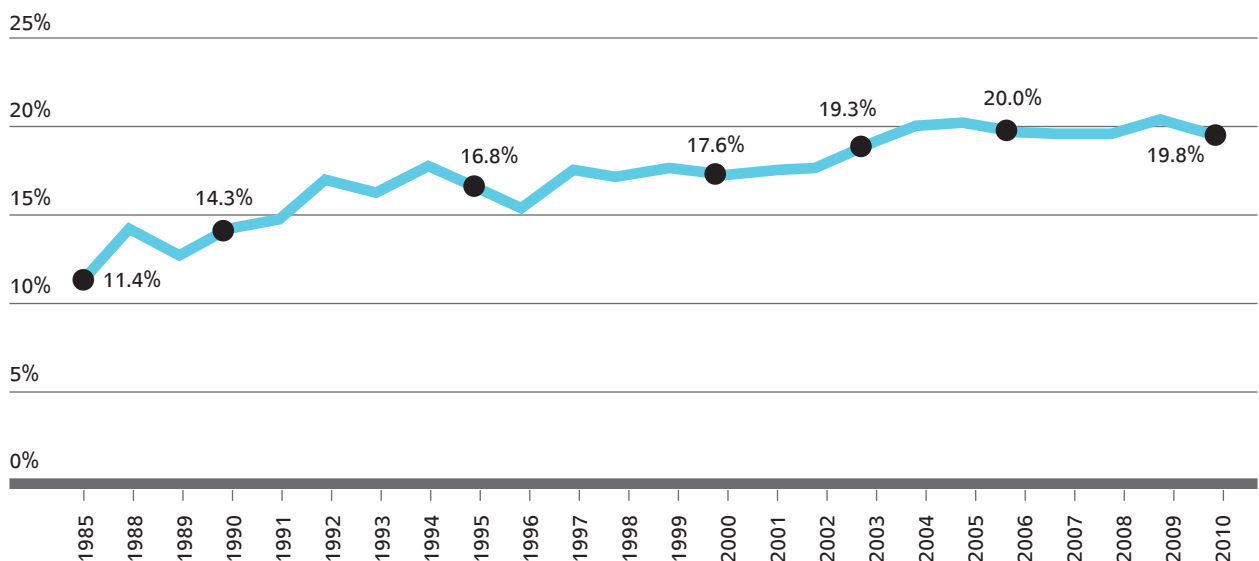
In the 1990s, they reduced the poverty rate by approximately 56%; and

In the 2000s, they reduced the poverty rate by approximately 53%.

Economist Momi Dahan notes, "An in-depth analysis of the factors causing Israel to have more poor than any other developed country cannot overlook the fact that Israel spends 7% of its GDP on defense, compared with 1.5% on average in the other developed countries."¹³

Poverty Rate for Families in Israel

1985-2010 • After direct taxes and transfer payments



Source: National Insurance Institute, *Annual Survey*, various years.

Guns or College Grads?

● The budget cuts made during the Intifadah years also had an adverse effect on higher education in Israel. The universities lost hundreds of academic jobs. In 2006, a national commission chaired by former Minister of Finance Avraham Shochat was established to examine national policy with regard to the financing of higher education. The commission recommended that the government not increase the higher education budget (but, instead, gradually return it to the 2001 level per student by 2013). It further recommended that the universities raise tuition and step up their fundraising efforts.

Also in 2006 – the very same year (on the heels of the Second Lebanon war) – the Cabinet appointed another national commission chaired by another past Minister of Finance, David Brodet, to examine the defense budget. This came shortly after a previous commission, chaired by Minister Dan Meridor, had recommended that the defense budget not be increased in real terms so that – under conditions of economic growth – this budget

would comprise a smaller share of the country's GDP. The Brodet Commission recommended the reverse: an increased defense budget by a total of approximately NIS 100 billion over ten years, with NIS 46 billion of this (an average of NIS 4.6 billion annually) to come from the state budget, another NIS 30 billion from American foreign aid, and the balance through efficiency measures to be taken by the defense establishment.

The story of these two commissions, Shochat and Brodet, illustrates the dilemma often faced by the political leadership in light of the ongoing conflict with the Palestinians: Should one invest in higher education and other social services or in defense?

In 2007, the year both commissions submitted their recommendations, public financing of higher education totaled NIS 5.5 billion. Thus, the defense budget will grow each year by an amount resembling the total state funding for higher education, which will now depend for growth (beyond its 2001 level per student) upon tuition hikes and fundraising.

The background features a series of vertical blue bars of varying heights, each with a white circular hole near the top, resembling a fence or a set of data bars. At the bottom, there is a dark, textured silhouette of a landscape or a group of people.

The Military

in the Shadow of the Conflict

The Military Cost: Politicization of the Israel Defense Forces

Israel's occupation of the Palestinian territories is a policy made by the political leadership, but its implementation falls upon the Israel Defense Forces (IDF). Since the Israeli-Palestinian conflict is not one that can be solved by military strategy, but only by internal politics, the army finds itself thrown into the political rink. Over the years, sociologists and political scientists have written about the manifestations and repercussions of this involvement.

The IDF and Israeli Politics

In 1990, during the first Intifadah, sociologist Moshe Lissak contended that the IDF cannot ignore political and ideological considerations in dealing with an uprising, unlike the situation of a real war in which it knows how to act in accordance with military considerations. The Intifadah casts it into a situation where it must face off against leading political figures or, alternatively, settlers. Thus, warned Lissak, the base of public support for the IDF top brass is at risk of erosion from the right and the left, and implicit in this state of affairs is the danger of delegitimizing military service.¹⁴

The IDF and the Belief in the Justice of Military Action

Political scientist Yoram Peri pointed out the operational implications of having to cope with a national uprising: legal ambiguity about confrontations with unarmed civilians; tension between the IDF and the judicial system in defining norms of conduct; breakdowns in the IDF reporting regimen; and a feeling of betrayal among military officers due to the legal restraints on how they wage the fighting, with threats of legal action for unlawful conduct. Peri added that the first Intifadah caused the first rupture in the public perception of security: Previously there had been a general consensus regarding the justice of Israel's wars, but some now

viewed the Intifadah as a just struggle for Palestinian self-determination.¹⁵

The IDF and the Settlements

The settlements are the focus of a bitter political debate between right and left. Furthermore, many of the settlers act in concert as a political camp identified with the political right. The IDF, as an arm of the state, is prohibited from taking sides between political camps and required to act impartially, disregarding the political agenda of one side or another. However, the conflict with the Palestinians is conducted on territory where the settlements are located, and these settlements constitute a key target for Palestinian fighters. As a result, the soldiers and settlers draw closer to each other, and the army finds itself functioning as their protector.¹⁶ And yet when the IDF carries out government policy that clashes with the interests of the settlers – such as evacuating outposts – the army often finds itself under attack by them.

The IDF as an Instrument of Policy

In the absence of progress on the diplomatic front, the IDF often finds itself bearing the brunt of government policies. The Israeli government's decision not to recognize the Hamas victory in the Palestinian elections of 2006, Israel's boycott of Hamas rule in the Gaza Strip, and the stringent closure imposed on Gaza have led to frequent exchanges of fire. In December 2008, the government dispatched the IDF to carry out the Cast Lead operation in which 1,400 Palestinians were killed, most of them civilians. The IDF then found itself on the side of the accused in the Goldstone Commission report. Military action was also the government's response to the Turkish flotilla carrying aid to Gaza in May 2010, and again the IDF found itself at the center of a political crisis.

The IDF and the Settlement Bias

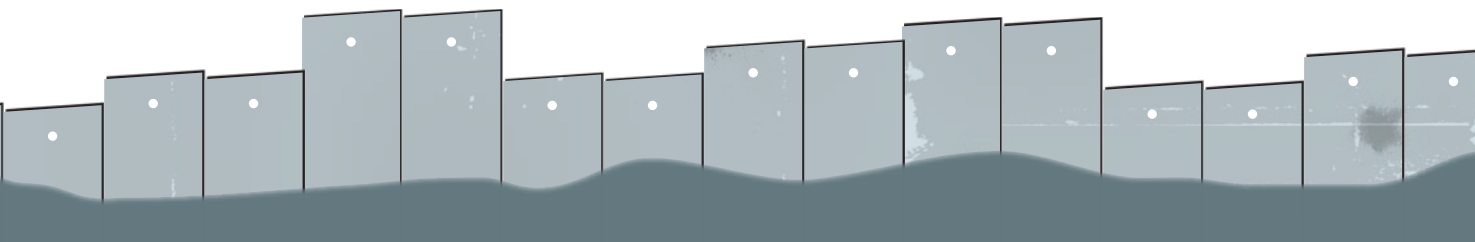
The sociologist Yagil Levy has studied relations between the IDF and the “hesder” [arrangement] yeshivas, a significant manpower resource for the military. The “arrangement” refers to a 1965 agreement that graduates of these yeshivas would be assigned to combat units in exchange for a shorter term of military service, a framework that allows them to combine military service with religious studies and allows for the ongoing presence of the yeshiva rabbis. Today more than 50 such yeshivas are in operation, and they are organized as the Arrangement Yeshivas Association. The rabbis and students of these yeshivas are strongly identified with the settlement movement in the occupied territories, and many are themselves settlers. Over the years, the IDF has come to depend on these recruits more and more, as young, secular middle-class Israelis increasingly prefer other avenues of military service. Levy points to the problematic nature of this arrangement, as the heads of the arrangement yeshivas do not conceal their view “that these [arrangement yeshiva] students do army service in order to safeguard the settlement enterprise, and their growing numbers in combat units and command positions will thwart the army’s ability to send troops to carry out future evacuation missions.”¹⁷ Levy argues that “The army has become party to a political deal in which the young men trade their willingness to sacrifice in exchange for the army not taking action against the settlements, which have become the main symbol with which broad sectors of religious Zionists identify. In short, the arrangement yeshivas are in charge of the recruitment policy, of cultural arrangements in the military, and even of military missions.”¹⁸ In this sense, although the IDF is in charge of the Palestinian territories by virtue of representing the occupying power, it has lost its standing. “The army has become the vassal of the settlers, and is no longer the commander, according to the rules of military occupation, of the inhabitants of the West Bank.” In

effect, “...the military command has lost a significant part of its control over its troops in the West Bank.”¹⁹

The most significant expression of the subordination of the military to the political agenda of the settlers is the concern that when the day comes when an order is issued by the political echelon to evacuate settlements as part of a political arrangement, the IDF will not be capable of carrying out the order. “The army,” writes Levy, “has no real ability to carry out evacuation orders without encountering massive disobedience on the part of the recruits [who are settlers and arrangement yeshiva graduates – SS], on whom the army depends for its quality manpower in a future war. It is doubtful that it will be possible to implement a treaty requiring settlement evacuation that would resemble the ‘elegant’ evacuation model of Gaza.” Aware of these constraints, the political echelon, according to Levy, might avoid giving that order: “The question of which orders will be avoided by the political echelon – in light of these constraints – is more important than the question of how the army will discharge these orders.”²⁰

Reduced Motivation for Combat Duty among the More Affluent

Another result of the ongoing occupation is what the sociologist Yagil Levy has called the “motivation crisis” among the western, secular middle-class. This manifests itself, inter alia, in a gradual but steady decline in the willingness to be drafted, to serve in combat units, and to volunteer for officer training. The motivation crisis, which began in the late 1980s, is rooted in several factors, including the relative decline of military service as a mobility channel and a parallel increase in alternative channels, such as business pursuits. It is also a reasonable assumption that a contributing factor to the motivation crisis was the pervasive feeling among these social strata that the conduct of the IDF during the first Intifadah was not in keeping with their values or with Israel’s diplomatic interests.²¹



The Military Price: Undermining Moral Legitimacy

From the moment the ongoing operational role of the IDF became enforcing Israeli control over another nation, breaches began to appear in the broad-based legitimacy enjoyed by the IDF ever since its establishment. Numerous Israelis came to wonder about the morality of using the army to enforce the occupation, instead of using it to defend the state and its citizenry. Soon after the 1967 war, voices were heard that warned against the implications of military control over Palestinians. Best known were those of Professor Yeshayahu Leibowitz, Itzhak Ben Aharon, Pinchas Lavon, and Lova Eliav. These were preceded by Shimon Zabbar and a group of eleven others, who published on 22 September 1967 – three months after the war – an advertisement in *Ha'aretz* warning against the serious repercussions of turning the IDF into an instrument of occupation:

Our right to defend ourselves against destruction
does not give us the right to oppress others
Occupation means control by outsiders
Control by outsiders leads to resistance
Resistance triggers oppression

Oppression begets terrorism and counterterrorism... With the passage of time, the IDF repeatedly found itself facing soldiers, mainly reservists, who refused to mobilize for missions imposed on the IDF. This happened at the time of the peace talks with Egypt, when the government tried to avoid dismantling the settlements in the Sinai peninsula; it grew during the first Lebanon war, whose original aim was to destroy the institutional infrastructure established there by Palestinians expelled

from Jordan; and it reached its highest numbers during the two Intifadahs.

A particularly significant protest of the use of the IDF to sustain the occupation came from women in Israel. The largest and most persistent movement has been Women in Black. The group that managed to directly influence policy was the Four Mothers Movement, which contributed to the Israeli government's decision to pull out of Lebanon after 18 years there.

The fact that Palestinian opposition to the occupation involves fighting in the midst of a civilian population has repeatedly mired the IDF in actions that have stirred moral outrage in Israel and abroad. The IDF finds itself besmirched by the need to carry out military actions in situations where political actions are called for. One result is the threat hovering over senior IDF officers that they will be tried for war crimes in international courts of justice.


In the past decade, at least four cases of the killing of civilians by the IDF evoked significant international outcries:

During the second Intifadah, the killing of Palestinian activists along with their families and neighbors by manned and unmanned aircraft, such as the killing in 2002 of Salah Shehadeh in the Gaza Strip, which caused the deaths of 15 civilians, including children.

The wounding and killing of peace activists from abroad by the IDF during solidarity demonstrations with Palestinians, such as the killing of Rachel Corrie in the Gaza Strip in 2003.

The killing of hundreds of Palestinian civilians during the Cast Lead military operation in January 2009.

The killing of nine foreign nationals participating in the Turkish flotilla that sought to bring aid into the Gaza Strip in May 2010.

The background features a series of vertical blue bars of varying heights, each with a white circular hole near the top, resembling a fence or a stylized skyline. Below these bars is a dark, textured silhouette of a landscape, possibly representing hills or a city skyline at night. The overall color palette is dominated by blue and dark tones, with white text and circular elements.

Israeli Politics

in the Shadow of the Conflict

Israeli Politics in the Shadow of the Conflict

Throughout most of the period since 1967, and certainly since the outbreak of the first Intifadah, the Israeli-Palestinian conflict has been the core issue in Israeli politics, so much so that it marginalized issues that in other countries are central to public debate, such as social and economic policies. While social and economic issues distinguish between the left and right political camps in other countries, the line of demarcation in Israel is drawn on positions vis-à-vis the Israeli-Palestinian conflict. For years, Israeli governments have risen or fallen on their stance vis-à-vis the conflict; as a result, the parties have not bothered to develop a real socio-economic agenda.

In the past year or two, the Israeli-Palestinian conflict has been shunted aside and replaced by discussion of a nuclear armed Iran. Although US President Barak Obama, early in his term, seemed to place efforts to broker a political deal between Israel and the Palestinian Authority at the top of his international agenda, this commitment eventually dissipated. Contributing to this was international preoccupation with the Arab Spring and the Arab arena in general, particularly after it brought down Egyptian President Hosni Mubarak, the most senior

Arab partner in the Israeli-Palestinian negotiations, who gave pan-Arab legitimacy to the Palestinian Authority. Nevertheless, the Palestinian issue has never been far from center stage. Today, too, as has been the case since 1967, it shapes the internal political arena. The approach to resolving it is what defines the large political camps in Israel. The main common denominator of the current coalition (as of May 2012) is its hawkish stand on the Palestinian issue.

The Israeli-Palestinian conflict also had a marked influence on the social protest agenda in the summer of 2011, a protest movement that was unprecedented in scope. At times it seemed that this protest managed to change public discourse in Israel, to place social and economic issues at the forefront for the first time in decades. But to accomplish this, the movement leaders were warned to avoid reference to the conflict at all, particularly the social and economic costs of the occupation, because of the divisive nature of this issue. When the political arena is so divided, taking a critical position about the occupation, even if this is limited to its social and economic implications, would allow the movement to be labeled left-wing.

One State or Two States



From 1967 until the Oslo Accords, the main alternatives discussed were annexation of the Palestinian territories, Palestinian autonomy under Israeli patronage, or return of the West Bank to Jordan and the Gaza Strip to Egypt. Since the Oslo Accords, negotiations over a permanent arrangement have been held between the Palestinian Authority, which aspires to achieve statehood, and Israel. This negotiation has alternately ebbed and flowed, but it is frozen as of this writing. Meanwhile, Israel continues to construct settlements while Palestinian Authority representatives are working to achieve international recognition for a Palestinian state.

In the absence of any real political progress, proposals have been raised that reflect despair at partitioning the land, a concept first recommended by the Peel Commission in 1936 and then formulated as a UN decision in 1947.

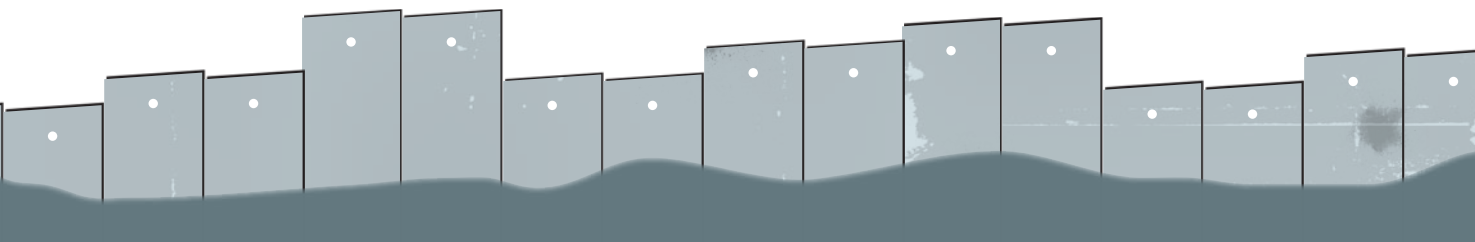
One proposal reported from time to time in the Israeli media, but not acted upon, is that of Mahmoud Abbas, head of the Palestinian Authority, joined recently by Yossi Beilin, one of the promoters of the Oslo Accords and the Geneva Initiative:²² This proposal threatens to disband the Palestinian Authority and “hand back the keys” to Israel, which means restoring the pre-Oslo situation. The proposal is designed to bring pressure to bear on Israel, whether because Israel would then have to assume responsibility for the Palestinian population, which would constitute a significant financial burden (prior to Oslo, the budget for the occupation was very small), or because it would clearly define Israel as the occupier even more explicitly than at present.

A second proposal calls for a one-state solution – Israel-Palestine – in which Palestinians are full citizens. The context for this is the ongoing Israeli policy of

establishing facts on the ground – construction, roads, land acquisition – which makes partition much more complicated. This proposal has been articulated primarily by academics, both Palestinian and Israeli, and entails the relinquishing by both sides of their national aspirations; hence it appears impractical.

On the Israeli right are calls to annex all or most of the Palestinian territories.²³ Naftali Bennett, for example, former head of the Council for Judea and Samaria, calls for annexation of Area C, which constitutes some 60% of the Palestinian territories and is currently under full Israeli control, as a result of the Oslo Accords. This annexation would not turn Israel into a bi-national state, as it would grant citizenship to only 50,000 Palestinians. Bennett notes that, “The world will not recognize our sovereignty there, any more than it recognizes our sovereignty over the Western Wall, the Ramot and Gilo neighborhoods of Jerusalem, or the Golan Heights. Never mind. They’ll get used to the idea.” The Palestinians, however, will clearly not get used to the idea, as in 1947 they were supposed to be given roughly half the area in dispute and, based on most maps drawn over the past two decades, they would receive the entire West Bank of the Jordan River and the Gaza Strip, which was part of Egypt until the 1967 war.

It should be kept in mind that the outline of the Oslo Accords (in its various incarnations, including the Arab Peace Initiative, the American Road Map, and the Israeli-Palestinian Geneva Initiative) is still the only outline officially acceptable to both sides and is still on the table. Nevertheless, in the absence of a practical and determined commitment of the Israeli leadership to make progress in keeping with these parameters, other ideas are being raised, such as those presented above.



A Nation that Oppresses Another Can Never Itself Be Free²⁴

When one nation oppresses another, it risks having the methods of control used by its security forces seep back into its own borders.

Over the years, the Israeli government has used various methods to suppress Palestinian resistance to the occupation: military, economic, and commercial, among others.

Many Israeli organizations play an active role in opposing the continued occupation. These activities are completely legal and part of the rich fabric of a democratic civil society, but they have often been regarded negatively by the authorities or media: Prime Minister Yitzhak Rabin's statement upon signature of the Oslo Accords will be recalled – that the Palestinian police would fight Hamas “without the High Court of Justice, B'Tselem, or Mothers Against Silence” – a thinly veiled criticism of organizations that ostensibly made life difficult for the Israeli security forces in the Palestinian territories. Over the past year, a large number of parliamentary initiatives have been brought forward that seek to constrain the activity of Israeli organizations that oppose the occupation. These initiatives are in the spirit of the measures used across the Green Line by the Israeli security forces, though they are much more severe in the Palestinian territories. In this way, Israeli methods employed against the Palestinians infiltrate and shape the methods used against Israelis who oppose subjugation of the Palestinian people. Thus, it can be said that the occupation undermines democracy. Some of the initiatives that have already been enacted into law by the Knesset:

- The “boycott law” enables the filing of civil lawsuits against those who call for a boycott of Israel.
- The law on disclosing support from a foreign state entity asserts that any person or group receiving

funding from a foreign state entity must register with the Registrar of Nonprofits and immediately report each contribution, mark every document in this spirit, and state at the opening of any remark they make that they are funded by a foreign state.

- Another law approved by the Knesset calls for harsh measures against any municipalities, organizations, or public institutions that publicly incarcerate Palestinian citizens of Israel who commemorate Nakba Day as a day of mourning – which particularly targets Palestinian citizens of Israel; another law eased the punitive measures taken against right-wingers who protested the disengagement from the Gaza Strip.

In addition to the above laws that have already been enacted, several bills now tabled in the Knesset would curtail freedom of expression and the right of groups to organize in protest of the continued occupation:

- A proposed amendment to the Libel Law would allow libel suits and even prosecution of organizations that convey information about human rights violations or breaches of the laws of war by the military;
- A proposed amendment to the Income Tax Ordinance would deny a tax exemption to not-for-profit organizations on income received from “a foreign state entity” and it would tax this income at a rate of 45%;
- A proposed amendment to the Nonprofit Associations Law would limit donations to a nonprofit from a “foreign state entity” to NIS 20,000 annually;
- A proposed amendment to the Population Registry Law would obligate every foreigner seeking to become a citizen to swear loyalty to Israel as a Jewish, democratic, and Zionist state, and to serve a term of military or national service;
- A proposed amendment to the Penal Code would allow for the incarceration of anyone who denies the existence of Israel as a Jewish and democratic state.

The background features a series of vertical blue bars of varying heights, each with a white circular hole near the top, resembling a fence or a set of panels. Below these bars is a dark, textured silhouette of a landscape, possibly a hill or a field. The overall color palette is dominated by blue and dark tones.

Israel's International Standing in the Shadow of the Conflict

Israel's International Standing in the Shadow of the Conflict


1

● The prolonged occupation of the Palestinian territories has created tension and even confrontation between Israel and sizeable parts of the international community:
No other country, including the United States, recognizes Israel's occupation of the Palestinian territories;
No other country, including the United States, recognizes Israel's annexation of East Jerusalem;
No other country, including the United States, recognizes the settlements established on Palestinian territory;
No other country, including the United States, recognizes the separation wall as a border. The International Court of Justice in The Hague handed down an advisory opinion stating that the construction of the wall in the West Bank and Jerusalem is illegal, and that Israel must dismantle it and compensate Palestinians who incurred damage because of its construction.
The Israeli-Palestinian conflict and, in particular, the occupation weaken the international standing of Israel, cast doubt on the legality of its actions, and undermine its status in the world as a democratic state committed to safeguarding human rights.
Without an Israeli-Palestinian political agreement, Israel will likely remain politically isolated and have to continue to rely on support from several European countries and North America.

2

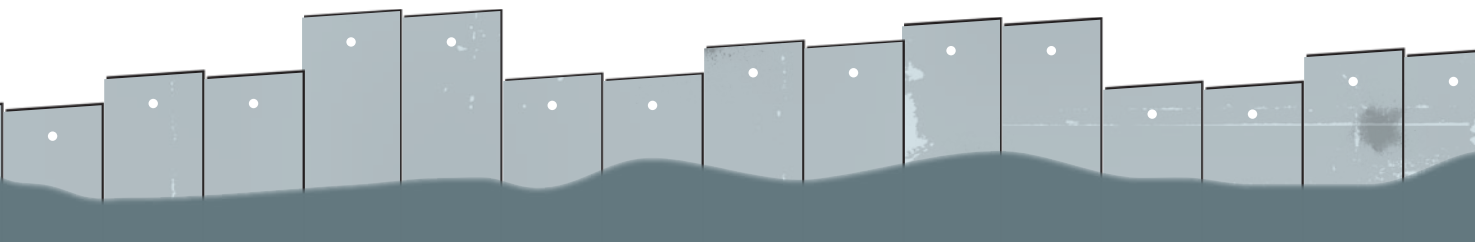
● For a long time after the 1967 war, Israel was ostracized by many nations of the world. This was detrimental to Israeli trade, among other things. In the wake of the Oslo Accords and the peace agreements with Egypt and Jordan, Israel emerged from its isolation, but it is still shunned by many nations in the Middle East, Africa and South East Asia.
Due to its prolonged diplomatic isolation, Israel came to depend more and more on the support of the United States and, in fact, became its client-state. The United States is the most powerful country in the world and its patronage has many advantages, but there are also drawbacks: One example that comes up periodically are the severe constraints imposed by the United States on the development of Israel's military industry.
But even in the United States, public support for Israel is no longer as universal as it was in the past. One clear reflection of this can be found in the writing of Thomas L. Friedman, the well-known *New York Times* columnist: Friedman likened the Israeli government to a drunk driver who has lost touch with reality and believes it can embarrass its only true ally without consequences (*New York Times*, 14 March 2010); on another occasion, he likened Israel to "America's spoiled child" (*New York Times*, 20 October 2010); and he has criticized Israel for not doing enough to advance peace (*New York Times*, 11 December 2010).
In contrast with Israel's good relations with the United States, its relations with the European Union are frequently strained around the Palestinian issue. The European Union is Israel's second largest trading partner. The European Union has already exercised its power on this issue by removing the tax benefits from products produced in the settlements, benefits that are granted to other items that Israel exports to Europe.

3

 The ongoing occupation also threatens to undermine Israel's relationship with the Jewish community throughout the world, which has been taken for granted for many years. Support from this community was instrumental in helping create Israel and providing help during the early years of the state; this solidarity and support only increased after the Six Day War. The Israeli-Palestinian conflict, however, has gradually undermined the nearly automatic support for Israel on the part of Jews. The Cast Lead operation further eroded this relationship.

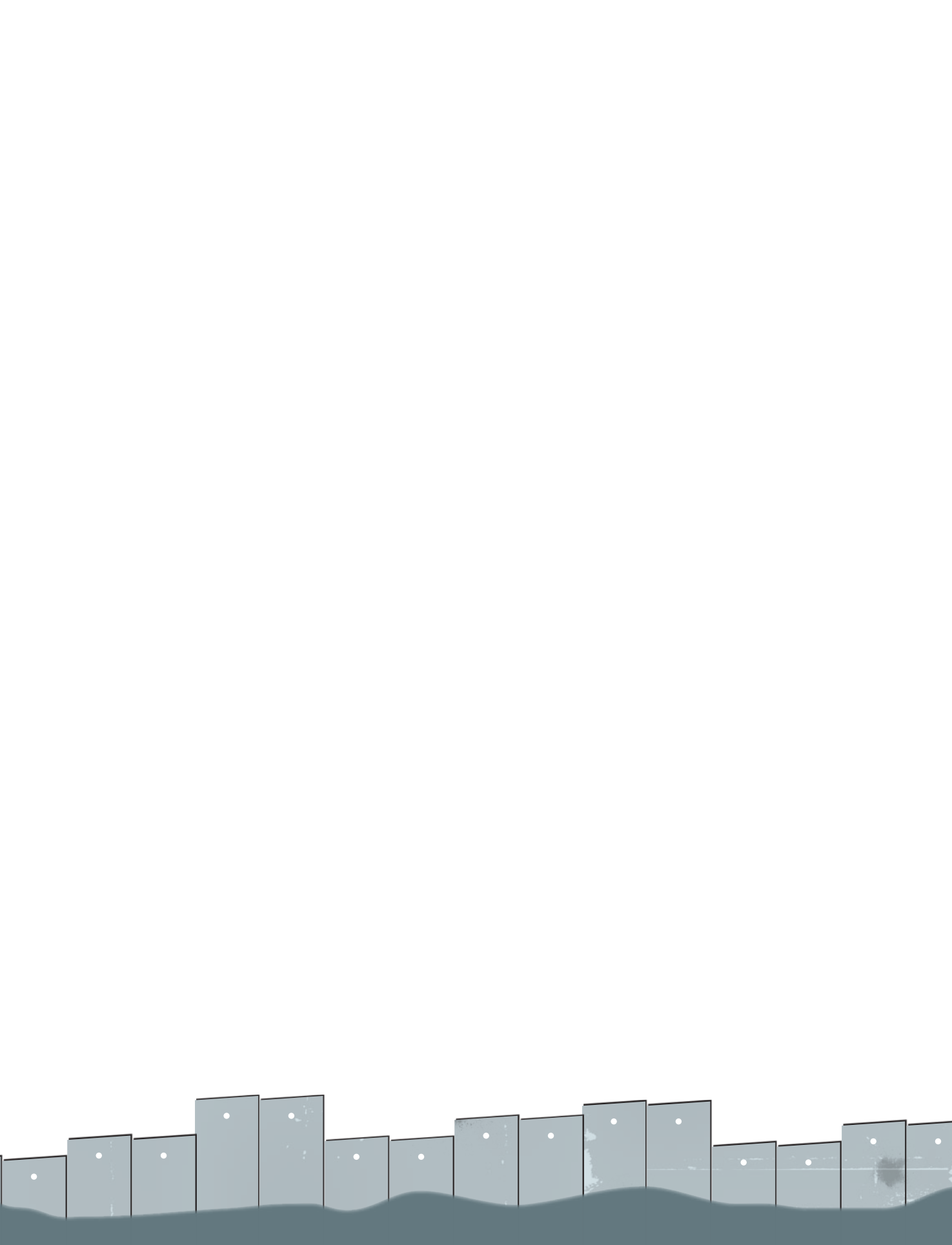
For the first time, Jewish Zionist organizations were formed in the United States and Europe that oppose the automatic support given by the traditional Jewish community leadership for Israel. J Street was formed in the United States in 2008, and J Call in Europe in 2010. Both these organizations call upon the Israeli government to initiate a two-state solution – establishment of a Palestinian sovereign state side by side with Israel.

And something that should worry Israel even more is the increased alienation of young, secular American Jews from interest in and identification with Israel (Natasha Mozgovaya, *Ha'aretz*, 30 May 2010).



Endnotes

- 1 Moti Bassok, *The Marker*, 2 September 2010.
- 2 Stanley Fischer, Governor of the Bank of Israel, in an address to the Governing Board of the Jewish World Congress in Jerusalem. Bank of Israel website, 1 September 2010. <http://www.bankisrael.gov.il/deptdata/neumim/neum367e.htm>
- 3 Moti Bassok, *The Marker*, 2 September 2010.
- 4 Prof. Zvi Eckstein, "Connecting terrorism, war, and the economy," presentation at the conference *The Israeli Economy under Threat*, Tel-Aviv University, 5 April 2011.
- 5 In a talk given to program graduates of the Mandel Institute, 17 April, 2012, <http://www.blacklabor.org/?p=44640> (Hebrew).
- 6 Unfortunately, the International Monetary Fund, from whose database we obtained these figures, does not provide *per capita* growth rates for country groups.
- 7 The UN Human Development Index is calculated using a number of criteria, among them life expectancy at birth, adult literacy, GDP, per capita GDP, and enrollment rates at different stages of the school system. Israel's public health system and its high enrollment rates in elementary and high school contribute to its high ranking.
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